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C O N F I D E N T I A L SECTION 01 OF 03 LJUBLJANA 000181

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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [ETTC](#) [SI](#)

SUBJECT: SLOVENIAN ECONOMY KEEPS ITS HEAD ABOVE WATER, BUT
STRUCTURAL REFORMS NEEDED

REF: A. LJUBLJANA 60

[1](#)B. LJUBLJANA 61

[1](#)C. LJUBLJANA 78

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Classified By: CDA Brad Freden, reason 1.4(b,d)

Summary

[11.](#) (SBU) Slovenia's economy continues to be in a slump, but leaders disagree about just how bad the economy is. Prime Minister Pahor was quoted in a newspaper interview on June 27 saying: "the global economic crisis will be longer and deeper than originally expected. We're witnessing the biggest contraction of economic activity since the second world war." On June 24, the Organization for Economic Cooperation and Development (OECD) announced its forecast that Slovenia's GDP would contract by 6% in 2009. The number paints a worse picture of Slovenia than the EU average, with an overall -4% growth. But on the more positive side, Minister Mitja Gaspari, Minister without Portfolio who leads the Government's economic advisory team, maintains that the OECD projection is based largely on the stock market. He stated that he still believes Slovenia's GDP growth will be closer to the -4% projection of the Institute of Macroeconomic Analysis and Development (IMAD). Similarly, the May EC forecast for Slovenia indicated -3.4% GDP growth in 2009. It is agreed, however, that Slovenia is officially in recession.

[12.](#) (C) The government is actively working to improve the economic situation for Slovenia's long-term future, as evidenced by the third package of reforms it recently endorsed. The fact that PM Pahor named Gaspari, Governor of the Bank of Slovenia from 2001-2007 (spanning Slovenia's adoption of the Euro), to be Minister without Portfolio responsible for Development and European Affairs illustrates the intense focus Pahor and the current government place on the economy. PM Pahor gave a published interview on June 27 where he acknowledged Slovenia's systemic weaknesses and highlighted plans to address those shortcomings. Despite the economic uneasiness, Post believes that Slovenia is politically stable. We do not expect any significant public or political upheaval in the near future, though labor unrest is possible in the fall if jobs continue to be lost. Slovenia's long-term economic health will depend on the recovery of its export markets, especially Germany. End summary.

Ongoing government measures: the third stimulus package

[13.](#) (SBU) On June 16, the Government endorsed Slovenia's third stimulus package; Parliament has extended its June session in order to have time to ratify it. Andreja Jerina, State Secretary for Gaspari's Ministry without Portfolio, explained on June 9 that the initial measures were preventative, while she called the third package a "restrictive package" because

it does not commit any additional state funds, but instead contains 17 short-term policy measures designed to cut excessive spending in the public sector. Slovenia's first stimulus package focused on reducing the impact of the crisis, which was developing in Germany, by committing 806 Million Euro (about 2.1% of GDP) to shore up Slovenian businesses and guarantee bank deposits. That package passed in December 2008 and the measures remain valid through 31 December 2010. The second package, passed in February 2009 was much bigger. It cost the Government more than 4.1 Billion Euro, the bulk of which (3.9B) went to measures to improve the finance and liquidity of enterprises. It also included some measures for maximizing the use of EU cohesion funds and increasing efficiency of spending. With bank guarantees a cornerstone of these packages, obtaining EU approval for the measures caused a delay in implementing them. The third stimulus package is designed to backup the first two packages.

¶4. (U) The Government is looking not just at the current financial situation, but at the long-term future of Slovenia. PM Pahor said that keeping a maximum budget deficit of around 5% of GDP "means that the burden of current government measures will not be passed on to future generations." He also referenced the Government's poor public presentation of its strategy during the first quarter, but confidently asserted that "Time will be the judge of our activities."

Opportunities for structural reforms

¶5. (SBU) Many prominent voices both inside and outside the Slovenian Government agree that institutional reforms are

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needed. Long recognized as a problem, Slovenia's pension system has been criticized extensively. On July 1, Angel Gurria, Secretary General of the OECD, said "Slovenia needs structural reforms now," and specifically said that to meet OECD criteria Slovenia needs to raise its retirement age and lower monthly pension payments. Pahor noted in his June 27 interview that structural changes are necessary and will be a priority this summer. He said that reforms may include: "public spending, lessening the tax burden to companies, improved tax-collection, taxation of currently untaxed wealth, introducing new management principles into the public sector, technological restructuring of the economy, increasing competitiveness, increasing labor market flexibility, and reforming the social security system, including pensions."

¶6. (C) Reduced public spending is already causing financial pain to some government bodies. The question of raising judges' salaries has exacerbated tensions between the ruling coalition and the opposition, which claimed that, given the current financial situation, raises are irresponsible. Various ministry officials have told Emboffs that they must miss certain international meetings due to lack of travel funds. At the Ministry of Defense, most capital acquisitions have stalled as acquisition funds are redirected to cover operational expenses. For example, the Ministry had signed contracts for 130M Euros for the purchase of armored vehicles, but they have had to delay receipt of the vehicles because they can not pay for them. The Slovenian police told Emboffs on June 23 that they are feeling the pinch and have had to skip two USG-offered police trainings due to lack of funds.

Grim numbers from 1st Quarter improving in Q2

¶7. (U) While the fourth quarter of 2008 and the 1st quarter of 2009 were financially terrible - on June 9, Andrej Flajs of the Slovenian Statistics office formally announced that Slovenia is officially in recession - economic analysts look at the 2nd quarter numbers and see hope. Although Slovenia's bank guarantee plans are finally in place, the long delay in implementing them has been a source of

criticism. Gaspari admitted on June 28 that the significant delay was a mistake by the government. News media continue to report accusations by the opposition that the government is not doing enough to address Slovenia's economic crisis, and focus on questionable loans to big companies. Meanwhile, reports of layoffs at various companies have slowed, and consumer sentiment is starting to improve slightly.

¶18. (U) The May 2009 EC economic forecast predicted Slovenia's GDP will grow by -3.4%, better than the forecast for the EU of -4.0%. For 2010 the EC forecasts Slovenian GDP will grow at 0.7%, compared to the projected EU growth rate of -0.1%. Private consumption indicators for May already look better than April: For example, new passenger car registrations were down by about 15% year-over-year (y-o-y) in May 2009 - an improvement over the prior month, where registrations were down by 37%. Few statistics are available, however, for May, but a few positive trends seem to be emerging. Seasonally adjusted slight upticks were detected in May over April in manufacturing, construction, and surveyed economic sentiment.

The SBI20 (top 20 stocks on the Slovenian Stock exchange) hit 4,400 in June, up from a March low of 3,400.

¶19. (U) Although demand for electricity is down in Slovenia, indicating a decrease in business activity, Slovenia found the bright side by profiting from exporting its surplus electricity. With a surplus of hydroelectric output and low electricity consumption due in part to reduced demand from businesses experiencing slowdowns, and in part by closures for the Easter holiday, Slovenia recorded net electricity exports in April, despite the regular one-month shutdown for overhaul of the Krsko nuclear power plant. The 87% increase in hydroelectricity offset nearly half the nuclear power shortfall from the plant's closure. With the power plant reopened and domestic demand still low, electricity exports may continue to rise - adding much-needed euros to the national coffers.

¶10. (U) Slovenia's economic numbers continued to decline in the first quarter, heightening concern both inside and outside Slovenia (reflets). Numbers for the first quarter of 2009 look relatively grim for Slovenia: Quarterly real turnover in retail trade was lower in all sectors y-o-y for the first time since data have been available (January 2001).

Turnover in hotels and restaurants posted the greatest recorded y-o-y decline in the first quarter with an 8.8% drop. Sale of automotive fuels also posted its greatest

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decline on record, although food, beverages, and tobacco sales remained at about the same level as in 2008. In the first quarter total exports fell by 21.2% y-o-y, the export of goods was hit much harder than services (down 12.8%). Quarterly imports of goods and services was also down by 25.3% y-o-y. Industrial production was down by 18.9% and construction was down by 20.6%.

¶11. (U) The rise in unemployment also moderated somewhat in March. Employment is still declining in manufacturing, construction, distributive trades, transport and other miscellaneous business services, while employment in public services continues to rise. Unemployment remains consistently about 3 percentage points lower than EU average unemployment, rising from 2008 levels of 4.4% to a projected 6% in 2009, however it remains a concern among the populace.

Comment

¶12. (C) Pahor's recent statements are a positive sign of the government's intent to pursue reforms. The pension system has long been recognized as a problem for Slovenia, even to the point of being a possible barrier to OECD accession, a concern reiterated by OECD's Gurria in his July 1 address to Slovenia in its accession review conference. Reforming the pension system will be an extremely unpopular move in Slovenia, but Post sees the increasing number of senior

government officials publicly recognizing the problem as a good start.

¶13. (C) While still keeping a wary eye on the economic data, Slovenian public and politicians appear to be coping reasonably well so far. The economy is still an undercurrent to many other political discussions - especially as it relates to potential government cutbacks. But the public in general appears to have relaxed, with less and less chatter about the global financial crisis. Post does not anticipate any public political strife caused by the economic crisis in the near term. But all eyes continue to watch numbers coming out of Germany - because "as Germany goes, so goes Slovenia." End comment.

FREDEN